

KWETHLUK INC. BULK FUEL FACILITY



MONITORING PLAN AND RECOMMENDATIONS

Prepared for:
ALASKA ENERGY AUTHORITY (AEA)

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Prepared by:

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OVERVIEW

This Monitoring Plan and Recommendations was completed under contract to the Alaska Energy Authority as a follow-up to a bulk fuel facility upgrade project in Kwethluk, Alaska. A new bulk fuel storage facility was constructed with 19 storage/dispensing tanks, one dual product dispenser, two pipelines to the dispensers, and two pipelines from the barge header to the facility. A component of the upgrade project was the development of a Business Operating Plan, which provided a guideline for the Kwethluk Inc.'s maintenance, operation and sustainability of the bulk fuel upgrade (the "facility"). Kwethluk Inc. (the "Primary Operator") is responsible to operate and sustain the facility according to the criteria and guidelines outlined in the Business Operating Plan.

Facility Participant

The facility participants are:

Kwethluk Inc.

Primary Contact Name: George Guy, General Manager

Phone: (907) 757-6613 Fax: (907) 757-6212

Address: Kwethluk Inc., P.O. Box 110, Kwethluk, AK 99621

Usage: Kwethluk Inc. utilizes its facility assets to retail fuel.

Kuiggluum Kallugvia

Primary Contact Name: Caroline M. Fisher, Manager

Phone: (907) 757-6613 Fax (907) 757-6212

Address: P.O. Box 110, Kwethluk, AK 99621

Usage: Kuiggluum Kallugvia utilizes its facility assets to generate electricity.

Lower Kuskokwim School District

Primary Contact Name: Bill Ferguson, Superintendent

Phone: (907) 543-4810 Fax (907) 543-4954

Address: P.O. Box 305, Bethel, AK 99559

Usage: The LKSD utilizes its facility assets to operate its facilities.

Facility Components & Capacity

The following table provides a summary of the tankage, by type of fuel, that is included in the facility upgrade:

Primary Storage/Dispensing	Number	Gallons Per Tank (Gross)	Total Gallons (Gross)	Gallons Per Tank (Net)	Total Gallons (Net)
Corporation					
Diesel					
Dispensing	1*	1,750	1,750	1,575	1,575
Primary Storage	5	23,000	115,000	20,700	103,500
Subtotal Diesel	6	24,750	116,750	22,275	105,075
Gasoline					
Dispensing	1*	1,750	1,750	1,575	1,575
Primary Storage	4	23,000	92,000	20,700	82,800
Subtotal Gasoline	5	24,500	93,750	21,975	84,375
Total Corporation	11		210,500		189,450
Utility					
Diesel					
Primary Storage	6	23,000	138,000	20,700	124,200
Total Utility	6		138,000		124,200
LKSD					
Diesel					
Primary Storage	2	23,000	46,000	20,700	41,400
Total School District	2		46,000		41,400
Total Storage/Dispensing	19		394,500		355,050
Pipeline Components	Number				
Pipelines to Dispensers	2				
Pipelines from Barge Header to Facility	2				
Dual-Product Dispenser	1				

* Dual dispensing tank – note that each compartment of a dual product tank is counted as a separate tank in this report.

Community Information

Kwethluk is a Yup'ik community located 12 air miles east of Bethel, with a population of about 800 residents. The largest employers are the school district, village corporation, store and health clinic. Commercial fishing permits are held by about 60 residents. Subsistence activities play a central role in the lifestyle; salmon, moose and caribou are the staples of the diet. Seal meat and seal oil are obtained in trade with coastal relatives and neighbors. Most families travel to fish camps each summer.

Kwethluk is dependent on air transportation for year-round movement of freight and passengers. A State-owned 1,750' long by 35' wide gravel airstrip and seaplane base are available. Barge services deliver cargo during the summer; however, there are no docking facilities. Snowmachines, ATVs, and skiffs are used for local travel, and the river becomes an ice road during winter. Winter trails are marked to Eek (45 mi.), Three Step Mountain (55 mi.) and Columbia Creek (49 mi.).

Selected demographic and historical data for the community is provided below:

Selected Statistics – Kwethluk

Population	
2008 (Kwethluk Inc. staff estimate)	800
2000	713
1990	558
1980	454
1970	408
1960	325
1950	242
Housing (2000 Data)	
Occupied Housing	199
Vacant Housing Due to Seasonal Use	33
Other Vacant Housing	13
Economic Data (2000 Data)	
Unemployment Rate	15.8%
Median Household Income	\$25,417

Kwethluk Inc.

Kwethluk Inc. successfully administers and operates a number of community programs and services. The following table lists the Corporation's current programs:

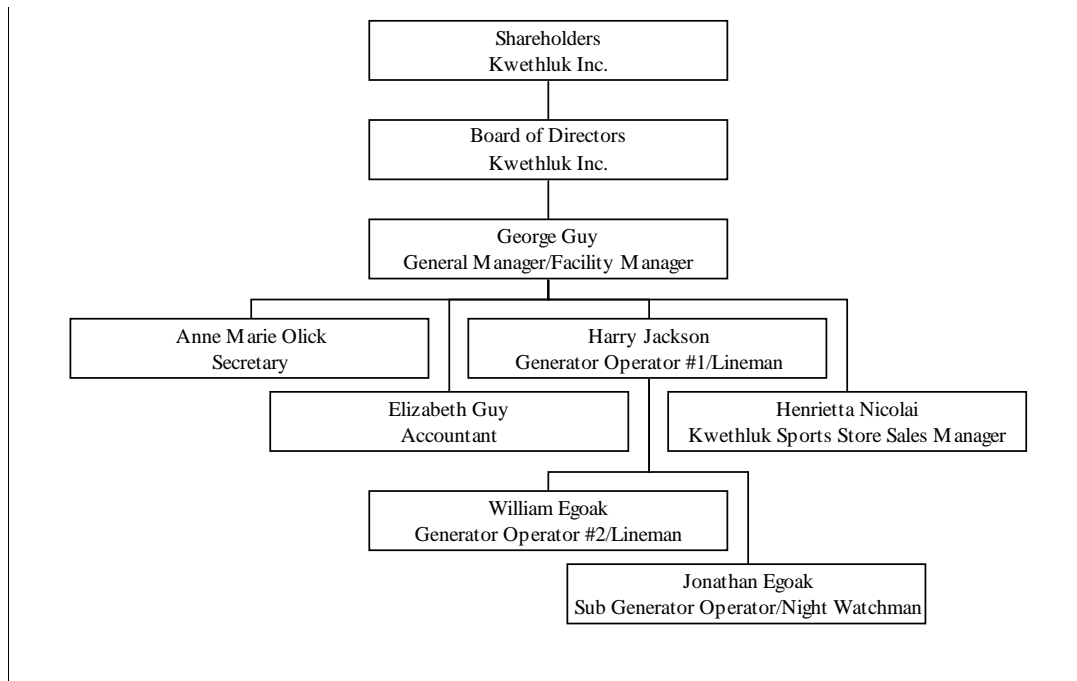
KWETHLUK INC. CURRENT BUSINESSES AND SERVICES	
Business or Service	Description
Bulk Fuel Storage	Bulk fuel facility operations
Electric Utility	Electricity provider
Fuel Retail Sales including Propane	Retail fuel dispensing
Kwethluk Sports Store	Retail sales
Heavy Equipment Rental	Heavy equipment available to rent
Home Rentals	
Land in Bethel	

The Corporation purchases fuel three to four times a year from fuel suppliers Crowley Marine Services and North Star Gas, which is retailed through Kwethluk Sports Store. Prices vary due to time of year and method of delivery. This winter Top Fuel delivered diesel #1 from North Star Gas via the ice road. Kwethluk Inc. paid \$3.77/gallon for the fuel and \$.25/gallon for the delivery for a total of \$4.02/gallon. They are currently retailing that fuel for \$5.00/gallon. Spring prices have been quoted by Crowley Marine as \$4.161/gallon for #1 and \$3.741 for unleaded gas - inclusive of delivery by barge. Typically, there is a fall fuel delivery; with winter deliveries scheduled as needed. The fuel ordered in the fall of 2006 lasted through that winter. This was not the case for the winter of 2007. Even though they had purchased 82,500 gallons of #1 (\$3.1456/gallon including delivery) and 30,000 gallons of unleaded gasoline (\$3.1714/gallon), colder temperatures brought them close to a crisis situation and dictated the winter delivery.

Since the Business Operating Plan was written (May 15, 2005), management has stayed the same but there have been changes in bulk fuel facility staff.

The following chart illustrates the updated staff relationships of the Kwethluk Inc. bulk fuel facility:

**KWETHLUK INC.
BULK FUEL FACILITY
STAFFING ORGANIZATIONAL CHART**



General manager, George Guy, is the bulk fuel facility manager and is the primary contact for the facility. He is responsible for communicating the directives and policies of the board of directors to the staff, overseeing the operators and the administrative staff, overseeing the financial management of the facility, and ordering the fuel. Day to day operations and maintenance is currently managed by the staff, made up of Harry Jackson, generator operator #1/lineman, generator operator #2, William Egoak, and sub generator operator, Jonathan Egoak, who also serves as the night watchman. They also have duties with the electric utility. Also on staff are the retail gas attendants/customer service representatives, William Guy and Mathew Jackson, who work for the Kwethluk Sports Store. There is no fuel delivery service.

Under the direction of the general manager/facility manager, accountant, Elizabeth Guy is responsible for the facility billing, accounts payable and receivable, payroll, bank account maintenance and financial report preparation.

Following are the current members of the Kwethluk Inc. board of directors:

Kwethluk Inc. Board of Directors	Position
James M. Nicori	Chairman
Nick J. Ayapan	Vice Chairman
Martha E. Jackson	Sec./Treasurer
Herman Evan	Member
Phillip Guy	Member

Monitoring Site Visit

The Alaska Energy Authority contracted with Aurora Consulting, of Anchorage Alaska, to conduct a site visit to the Kwethluk Inc. bulk fuel facility and to develop a “*Monitoring Plan and Recommendations*”. The scope of the assignment included working with the Corporation to obtain information on existing management and operational systems; comparing those systems to the Business Operating Plan requirements and other “best practices”; making recommendations for changes and/or training; developing ongoing monitoring tools; and/or, working to cure any deficiencies or defaults experienced by the Corporation.

Aurora Consulting traveled to Kwethluk on February 27, 2008 to meet with the Corporation’s bulk fuel facility management and staff, including:

Contacts	Title
George Guy*	Facility Manager
Harry Jackson	Generator Operator #1
Elizabeth Guy	Accountant

*While an appointment had been made to meet with Mr. Guy, he was called out of town at the last minute. An extensive interview was conducted by phone, after the on-site visit.

Monitoring Plan and Recommendations

The following Monitoring Plan and Recommendations is organized into three sections:

- Management and Operational Skills
- Business Operating Plan Compliance
- Recommendations

Management and operational skills identify those skills and practices that are crucial to the short-term viability of a bulk fuel facility, while Business Operating Plan compliance areas identify those activities that are required by the Denali Commission approved Business Operating Plan.

Management skills include administration, fiscal systems and collections. Operational skills include the ability to perform maintenance, repair and operation of the bulk fuel facility. Both skill sets require knowledgeable and trained managers, bookkeepers and facility operators to manage and operate the facility on a daily basis. In contrast, the business operating compliance section details the key activities and actions are required to be completed by the Primary Operator in order to be in compliance with the terms and conditions of their Business Operating Plan.

Additionally, this report includes major recommendations for continued actions and training, which are detailed in the conclusion section of this report. These recommendations are limited to those actions necessary to meet the deficient management and operational skills or Business Operating Plan compliance areas.

BULK FUEL FACILITY MANAGEMENT/OPERATIONAL SKILLS

Financial Management

(1=Lowest Skill Level 5= Highest Skill Level)

1	2	3	4	5	<i>Financial Management Skill Areas</i>
<i>Annual Budget</i>					
X					Develop and utilize budgeting process
X					Staff understanding of budget
<i>Bookkeeping</i>					
X					Develop and track facility costs using a Chart of Accounts
X					Understands and tracks operation & management (O&M) costs
X					Understands and tracks renewal & replacement (R&R) costs
<i>Collection Policy</i>					
				X	Policy in place
				X	Policy implemented
X					Collections at appropriate level
<i>Business Operating Plan</i>					
	X				Policy board has general understanding of Plan and requirements
		X			Management has general understanding of Plan and requirements
X					Staff has general understanding of Plan and requirements
		X			Management understands financial assumptions and tables
X					Staff understands financial assumptions and tables
	X				Management capable of annual Plan update
X					Staff capable of annual Plan update

Comments:

Annual Budget

The Corporation does not use an annual budget process for the bulk fuel facility. The general manager oversees the expenditures, directs the accountant to prepare reports, which are reviewed on an annual basis by the board of directors.

Bookkeeping

Kwethluk Inc.'s accountant is responsible for accounts payable and receivable, for reviewing the bank accounts and preparing payroll. On request, she assists the general manager/facility manager in the preparation of financial records for meetings of the Board of Directors. At this time, O & M and R&R costs are not being tracked, nor are facility participants being billed for their percentage of the O&M and R&R.

Collections Policy

The Kwethluk Sports Store, a subsidiary of Kwethluk, Inc, retails gas and fuel. Residents and commercial accounts are able to purchase fuel on credit and are billed on a monthly basis by the Sales Manager, Henrietta Nikolai. Of the approximate 300 fuel/gas accounts, 50% are in arrears on average. Once an account owes \$200, they may no longer charge their fuel until that bill has been collected.

Business Operating Plan

The general/facility manager is familiar with the Business Operating Plan, however, it has not been reviewed with staff. The Plan was presented to the board of directors when it was first written; however, members of the board have changed and, therefore, the current board has not been presented with the Business Operating Plan. No one is prepared to update the Plan on an annual basis.

Personnel Management

(1=Lowest Skill Level 5= Highest Skill Level)

1	2	3	4	5	<i>Personnel Management Skill Areas</i>
<i>Job Descriptions</i>					
				X	Job descriptions current for all positions
				X	Staff aware of/understand job descriptions
<i>Staffing</i>					
				X	Staffing adequate to operate & maintain the facility
<i>Training</i>					
		X			Staff has adequate training for job requirements
		X			Ongoing training in place

Comments:

Job Descriptions

Kwethluk, Inc. has current job descriptions for the bulk fuel facility staff. Employees appear aware of their duties and responsibilities.

Staffing

It appears that the staffing level of Kwethluk Inc.'s bulk fuel facility is adequate to operate and maintain the facility.

Training

There is no formal training plan in place, but training opportunities are valued and utilized. It would be advantageous for the accountant to attend the AEA Bulk Fuel Business Training. In addition, staff mentioned that a HAZWopper refresher course would be good for the operators.

Operations Management

(1=Lowest Skill Level 5= Highest Skill Level)

1	2	3	4	5	Operations Management Skill Areas
<i>General Operations</i>					
			X		Management/staff have general understanding of operation needs
	X				System to schedule tasks for routine maintenance
	X				System to schedule tasks for non-routine maintenance
<i>Inventory Control</i>					
		X			Inventory control system in place
			X		Knows what parts to keep in inventory for routine maintenance
<i>Emergency/ Spill Response</i>					
			X		Staff can explain/locate oil spill response plan
			X		Written safety policy

Comments:

General Operations

The generator operator stated that they have a good understanding of the operational needs of the facility and the facility components are operated and maintained in good working order. The generator operator #1 and generator operator #2 provide routine, daily (O&M) maintenance functions on the bulk fuel facility - inspecting equipment, checking filters, fuel levels and meters, and shoveling snow. Other, less frequent inspections and servicing appears to take place on an as needed basis, which for long term planning, may be less than ideal.

There is no formal system to schedule non-routine (R&R) repair functions. The R&R schedule in the Business Operating Plan was referred to as a tool to develop a system for scheduling non-routine repair functions.

Inventory Control

There is no formal inventory control and few supplies are kept on-hand for the facility, but what is on-hand seems to suffice for routine maintenance. Other parts, supplies and equipment are ordered on an as needed basis. The generator operator orders it himself or requests that the general manager place the order.

Emergency/ Spill Response

The generator operator indicated that he was trained to deal with any spills and pointed out the spill response equipment trailer. He was not aware of the actual location of the spill response and safety manuals, but the general manager said there were several copies available to staff.

BUSINESS OPERATING PLAN COMPLIANCE

Financial Management

Yes	No	NA	<i>Financial Management Compliance Areas</i>
<i>O&M Account</i>			
	X		Accounting established
	X		Regular deposits into account
	X		Systems in place for \$5,000 authorizations
<i>R&R Account</i>			
	X		Accounting established
	X		Regular deposits into account
	X		Interest-bearing savings account
	X		Resolutions required
	X		2 signatures required
		X	Escrow account established
		X	Resolutions required
		X	2 signatures required
<i>Budgets</i>			
	X		O&M budget
	X		Prior to fiscal year
	X		R&R budget
	X		Prior to fiscal year
<i>Business Plan Updates</i>			
	X		Review assumptions
	X		Update tables
<i>Audits</i>			
	X		Annual audit conducted by qualified, independent auditor
	X		Copy to Denali Commission
<i>Annual Report</i>			
	X		Submitted to Denali Commission timely
	X		Summary of O&M and R&R Projects
	X		Expenditures and account balances
	X		Upcoming O&M and R&R budgets
	X		Updated business plan financial tables
	X		Other information
<i>Insurance</i>			
	X		General liability insurance in place
	X		Other insurance in place

Comments:

O&M Account

Kwethluk Inc. uses the banking services of Wells Fargo Bank. The Corporation maintains one primary account. The Corporation has not yet established any specific bulk fuel facility accounts for the O&M activities, expenditures or deposits.

All invoices are reviewed by the general manager. All checks are signed by two board members; who are the only ones authorized to sign checks. A copy of the signed check is attached to the supporting documentation and filed at the Corporation office. The Board is advised prior to purchasing any large expenditure, such as fuel.

R&R Account

The Corporation has no R&R account.

Budgets

The Corporation does not prepare an annual budget for the bulk fuel facility.

Business Plan Updates

No one at the Corporation is prepared to update the Business Operating Plan. The general/facility manager would like to see the accountant attend the AEA Bulk Fuel Business training course to better prepare her to work with the Business Plan and take on more bookkeeping duties.

Audit

The accounting firm of KPMG in Anchorage prepares the Corporation's annual audit. A copy of the '07 audit was completed; however, a copy was not submitted to the Denali Commission.

Annual Report

Kwethluk Inc. operates on a July through June fiscal year. An annual report should be sent to the Denali Commission for fiscal year 2008 by September 30, 2008 – no report was submitted for FY07.

Insurance

The Corporation's insurance includes liability, property, workers' compensation and is through Alaska USA Insurance Brokers.

Personnel Management

Yes	No	NA	<i>Personnel Management Compliance Areas</i>
<i>Facility Manager</i>			
X			Manager designated
		X	Changes reported to Denali Commission
<i>Staffing Adequate</i>			
X			Staffing adequate
<i>Training Plan</i>			
	X		Training plan in place

Comments:

Facility Manager

General manager, George Guy, was the facility manager identified in the Business Operating Plan.

Staffing Adequate

Staffing appears to be adequate at this time for the bulk fuel facility.

Training Plan

There is no formal training plan, but the bulk fuel facility management and staff are receptive to and willing to undertake additional training to better their operations and/or financial skills and knowledge of a bulk fuel facility. The general management/facility manager participated in the AEA Bulk Fuel Manager's Training. And, the accountant would benefit from participating in the Bulk Fuel Business Training offered by the Alaska Energy Authority.

Operations Management

Yes	No	NA	Operations Management Compliance Areas
<i>Facility Components in Good Working Order</i>			
X			Facility components in good working order
<i>SPCC</i>			
X			SPCC on-hand
X			SPCC current
<i>Facility Response Plan</i>			
X			Plan on-hand
X			Plan current
<i>Coast Guard Operations Manual</i>			
X			Manual on-hand
X			Manual current

Comments:

Facility Components in Good Working Order

Harry Jackson, generator operator 1 provided an excellent visual tour of the bulk fuel facility, dispenser and spill control equipment trailer. The facility appears to be well maintained, in good repair and operating smoothly.

SPCC/Facility Response Plan/Coast Guard Operations Manual

Several copies of the U.S. Coast Guard Operations Manual, U.S. EPA Spill Prevention Control and Countermeasure Plan (SPCC) and the EPA Facility Response Plan prepared by AEA are on hand and the manager indicated the employees are familiar with them.

RECOMMENDATIONS

The Kwethluk Inc. staff and management interviewed indicated an interest in managing the **bulk fuel facility** so it is sustainable and beneficial to the community for the long term. They are interested in becoming more familiar with the Business Operating Plan, implementing its recommendations and meeting its requirements. The operator gave a thorough tour of the **bulk fuel facility** and management **thoughtfully participated in a comprehensive interview**. The resulting recommendations primarily focus on increased familiarity with the Business Operating Plan, working with budgeting and accounting procedures and formalizing inventory tracking and task-scheduling for the facility.

The following outlines the systems and procedures that should be addressed by Kwethluk Inc., areas that technical assistance/training may be warranted, and operational areas requiring follow-up:

Systems and Procedures	ASAP	Within year	Long Term
Develop a budgeting and budget review system	X		
Develop system to collect O&M payments from all participants	X		
Develop system to collect R&R funds from all participants	X		
Develop a process by which inventory can be tracked		X	
Establish an interest-bearing R&R fund account	X		
Prepare and submit Denali Commission annual report	X		
Training			
Arrange training on the Business Operating Plan for Board and Staff	X		
Schedule/arrange training for accountant	X		
Operations			
Develop system to schedule tasks for routine (O&M) maintenance		X	
Develop system to schedule tasks for non-routine (R&R) repair			X
Familiarize staff with emergency/spill response policies and practices	X		

TRIP PHOTOS



Tank Farm signage



Tank Farm



Tank Farm fence



Tank Farm II



Tank Farm III



Dispenser signage



Dispenser



Tank Farm IV



Dispenser II



Dispenser III



Dispenser Instructions



Spill Equipment trailer



Kwethluk Inc. Office